

# OSBE Special Meeting 4.9.21

Sovereign Community School (SCS) –  
Brad Clark



**OKLAHOMA**  
Education





**Application to Oklahoma City Public  
Schools – denied 2x**

Administrative leadership

Facilities

Transportation

Finance



**8.23.18 - Appeal to State Board of  
Education – approved**



**11.27.18 – Contract approved**

# Application

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## Finance

- Grants
- Tribal partnerships
- Increasing enrollment

## Enrollment

- Year 1 – Grades 6 and 9 only; 150 students
- Year two – Grades 6, 7, 9 and 10; 300 students

## Educational program – professional development

- Robust professional development for instructional and leadership staff
- One day each week school lets out early and faculty do PD all afternoon; 10 days added to school year to account for time

## School leadership

- Leader applicant (Phil Gover) will not serve as school leader; a founding principal is being recruited
- Pool of candidates and would consider qualified, experienced school superintendent

# Contract – Performance, Audits & Evaluation



Term – July 1, 2019 through June 30, 2024



Application incorporated



Authorized to operate School subject to terms of the Contract, the Charter Schools Act and all laws and regulations



Annually meet or exceed expectations on the School Performance Framework

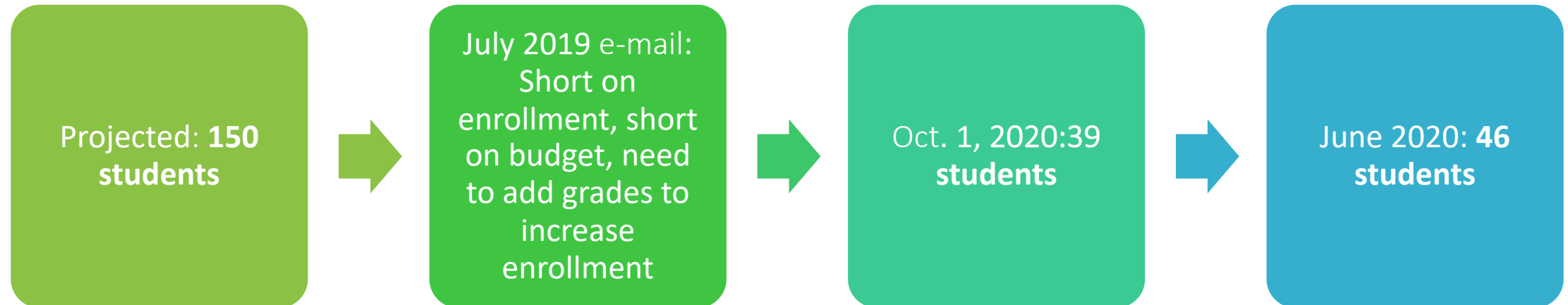


Maintain compliance with Applicable Laws and regulations, as well as accreditation requirements.

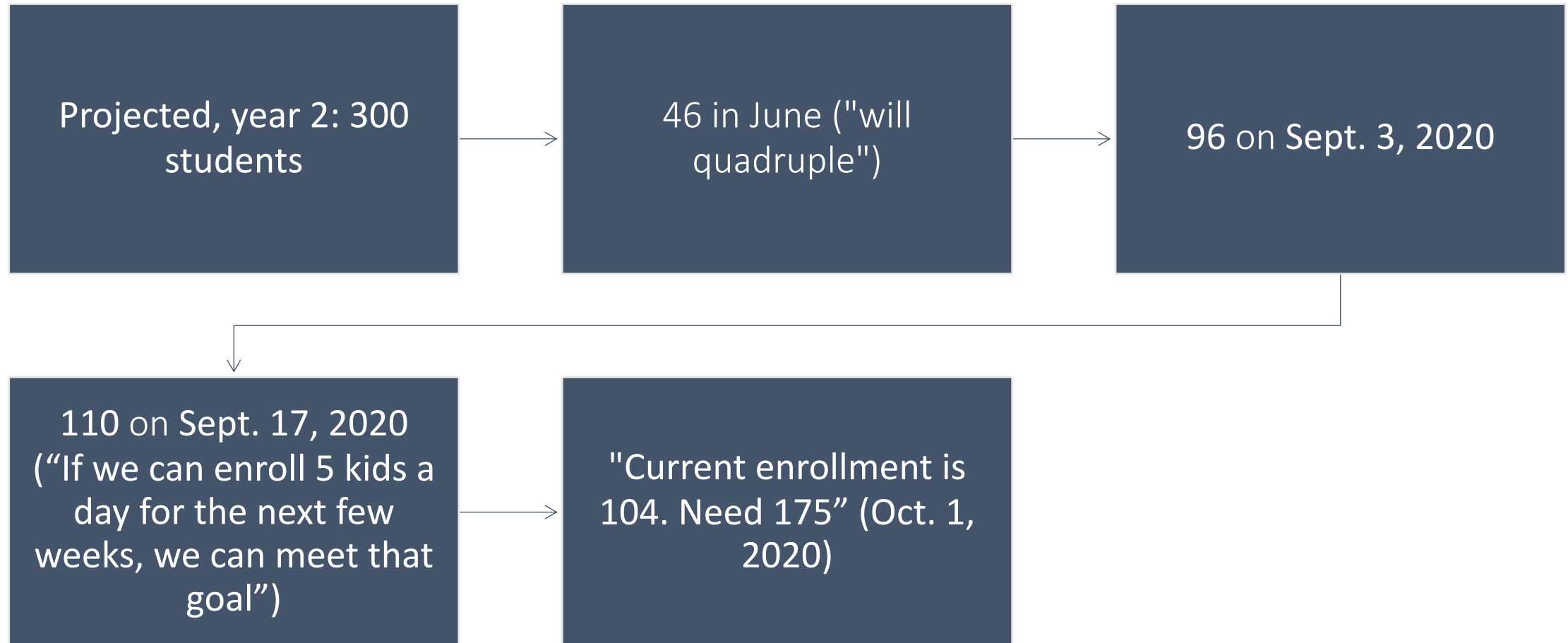



# Enrollment (Year 1)

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# Enrollment (Year 2)





# Leadership & Employment

- Application:
  - Leader applicant (Phil Gover) will not serve as school leader; a founding principal is being recruited
  - Pool of candidates and would consider qualified, experienced school superintendent
- School Leadership:
  - Phil Gover
    - founder, superintendent and board chair (see Application). Removed in January 2020 due to financial mismanagement and relations with governing board
  - Matt Wilson
    - Counselor at Shoshone-Bannock Mid-High School in Idaho
    - Hired as Superintendent in January 2020, but Board "backdated" hiring to July 2019 (Minutes, Jan. 9, 2020)
    - "ex-knucklehead, high-school dropout"
    - No notice to OSDE as required by 70 O.S. § 5-141



# Leadership & Employment

- Teachers Retirement
  - Sovereign not a member of Teachers Retirement in Year 1; board action to apply in Feb. 2020.
- Furlough and terminating employees – March 27-28, 2020
- Office Manager approved as Encumbrance Clerk, Director of Operations, Director of Athletics and Director of Child Nutrition
  - Duties include working on professional development and education (July 16, 2020; *see also* Application)
- Table teacher contracts for Math, English and HS Science (Aug. 28, 2020)
- HS Math and Finance teacher working on School finances and presenting financial reports to Board (Oct. 2020)
- “Trying to buy a van so that we don’t always have to have a CDL driver.” (Oct. 1, 2020)
- “We need a Special Meeting to determine staffing. May have to reduce staff. (Oct. 1, 2020)

# Leadership & Employment

## - Contracts

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No signed contracts in year 1

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Crossover fiscal years

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Incorrect dates

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"TBD/COVID situation" listed as end of contract term

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Report all at 210 days and ending June 30, 2020;  
however, not a consistent starting date

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Underpaid personnel

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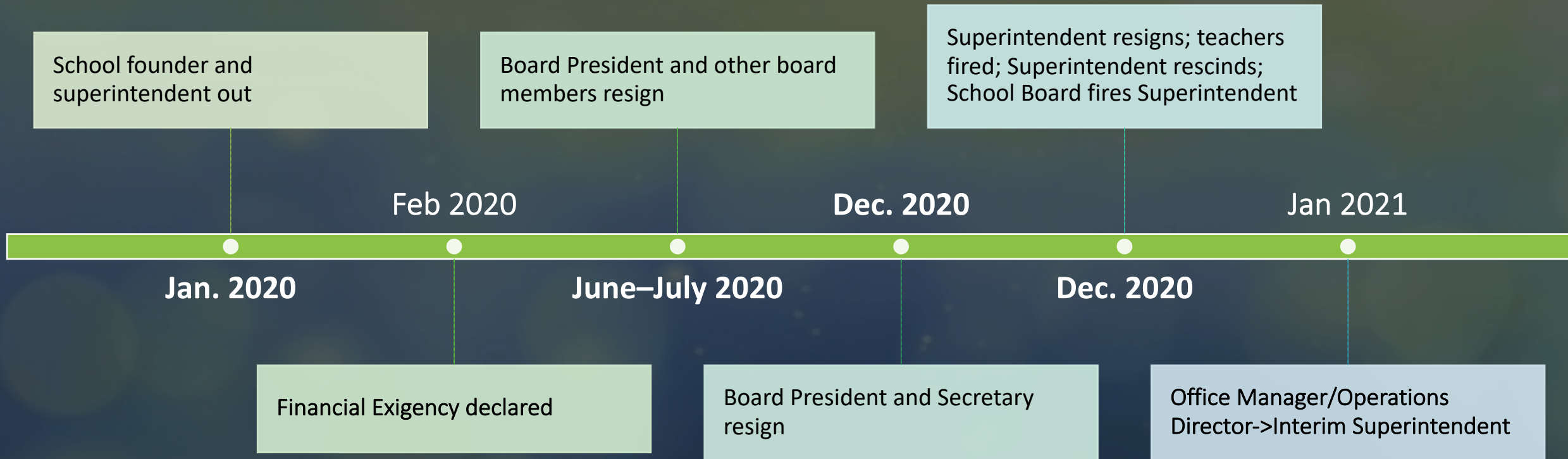
No evidence of paying fringe benefits (life and disability)

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Some employees without a contract

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# Leadership & Employment



I hereby certify to the best of my knowledge and belief, the data reported constitutes an accurate and full report of all revenues and expenditures during the previous fiscal year under OAC.....I understand this data will be used for many purposes, including but not limited to, reporting to state legislature, USDE, and in the calculation of your district's Maintenance of effort and any penalties in accordance with the applicable statutes. I understand that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise.

# Operations & Finances – Personnel Reporting

- Inaccurate certified reporting: 0 certified staff reported through SPR; reported 8 for flexible benefits
- OSDE: Personnel Report is late, please submit
  - "attempt to begin reporting 3 weeks after the deadline is alarming and will potentially create a delay for 50,000+ certified employees..." (Aug. 6, 2020)
- OSDE: Please accurately complete these reports; do not hesitate to ask for assistance
  - Sovereign's current superintendent: "100% confidence that will NOT happen in our 2020-2021 reporting and data"

# Operations - Reporting

## Annual Statistical Report (ASR)

- Failed to certify despite prior notices (June 30, 2020)

## Estimate of Needs

- Financial statement of true fiscal condition of the district, estimated needs and probable income from all sources, due October 1
- Not submitted; missed statutory deadline

## Oklahoma Cost Accounting System (OCAS)

- Reporting of prior year's actual revenue and expenditures (submitted September 1, certified by September 30)
- OSDE: superintendent's salary not reported; information, including Estimate of Needs not provided;
- No response

## Flexible Benefit Allowance (FBA) - 2020-21

- Due Oct. 1; Due again in Jan. 2021
- Sovereign's Oct. information not finalized until Feb.



# Operations - Reporting

Superintendent reported to be working 128 days for the year;

Employee reported as 10 hrs/day for 261 days

Earnings and days of support personnel not accurate

Non-responsive to FY 21 reporting due 10.15.20

First Quarter Statistical Report (Due Oct.; submitted Dec 31. 2020)

Encumbrance Clerk, Operations Director and Interim Supt. all the same (2021)

Superintendent contract not provided (2021)

Non-payment of employee insurance premiums (Jan. 2021)

# Contract - Governance

School is responsible for academic, financial and organizational performance of the School

- May delegate authority, but remain responsible
- Decisions separate from Sponsor
- No authority to bind Sponsor
- Assume all liability

Bylaws modification require prior notice

Changes in Articles of Incorporation require prior notice

Changes in composition of governing board require prior notice

# Open Meetings Violations

## Executive Session

- Not identified as anything other than “Executive Session” (Feb. 2020; July 27, 2020; Aug 6. 2020; Aug. 28, 2020; Sep. 3, 2020)
- Not on posted agenda, but in meeting minutes (June 4, 2020; July 2, 2020; July 9, 2020)

Meeting minutes reflect dates for which no meeting scheduled (May 3, 2020)

# Open Meeting Violations (continuum)



# Operations & Finances

Facility fails inspection, "frantic" search for an alternative (July 2019)

## Planning and Opening

- \$325,000 grant from Walton Family Foundation
- \$600,000 grant from Oklahoma Public School Resource Center
- What happened to nearly \$1,000,000?

Financial shortfall realized; "immediately focused on fundraising and we reached out to many tribes for support."

Depositing checks into wrong accounts (Feb. 2020)

Declaration of financial exigency (Feb. 2020 – "Motion to establish financial exigency")

Use Paycheck Protection Plan (PPP) loan to pay balance of lease on a school bus (May 2020).

"Merger" approved"



# Operations & Finances - Merger

- "Approve the merger of Sovereign Community School District with Santa Fe South School District and to allow Chris Brewster to move forward with next steps, regarding the merger." (April 14, 2020)
  - Notice on social media, later described as an error and failure to recognize importance of notice and agreement with Sponsor;
  - OSDE correspondence: 1) merger not authorized; substantially deviates from Application in Year 1; no transactional documents; significant concerns. Appear at 5.28.20 meeting.

# Operations & Finances – Merger (May 25, 2020)

State Board proposal for merger with Santa Fe South (see prior slide)

- Financial concerns

## Proposal

- Santa Fe South assumes Sovereign Community School contract
- Santa Fe South operates the School campus
- School Board relegated to advisory role and is a foundation to support School (fundraise to repay Santa Fe South)
- Santa Fe South hires employees for 3 years
- Santa Fe South assumes all School financial obligations, with "debts repaid with assistance from Santa Fe South Dev. Corp"
- School will have ability to be a separate entity at the end of the agreed term (3 years)
- Sustainability coming - "quadrupled enrollment numbers to 160;"
- Santa Fe South financial commitment, fundraising to support repayment

Questions, any action tabled until June 25, 2020

# Merger Questions

- g. Non-Assignment. Neither party to this Contract shall assign or attempt to assign any rights, benefits, or obligations accruing to the party under this Contract unless the other party agrees in writing to any such assignment, which said agreement will not be unreasonably withheld.



SCHOOL FINANCES



SEPARATE ENTITIES – 70 O.S. § 3-135 & 70  
O.S. § 18-118



WHY WOULD SANTA FE SOUTH DO THIS



SPONSOR CONTRACT: NO ASSIGNMENT,  
NO MATERIAL DEVIATION  
FROM APPLICATION AND EDUCATIONAL  
PROGRAM



# Merger Questions

- Transactional documents exist for the M&A and loan?
  - Assumption of liabilities, employees, separate entities, who is the lender?
- Santa Fe South (schools) or SFS Development Corp. If the public school entity:
  - Prohibited from diverting funds to another entity – 70 O.S. § 18-118
  - Separate entities; different sponsors
  - Low expenditures on instruction (47%)
- Different entities?

State Reports

State Expenditure Details

District Reports

Year: 2019

The List Of Districts

Expenditure Details · OCAS Reports · L

SUMMARY

District Name: Okc Charter: Santa Fe South Charter 55E021

4825 S Shields Blvd

Oklahoma City, OK 73129-3211

Website: http://www.santafesouth.org - Additional information on school district budget and expenditures available on the district webpage.

Year: 2019 - 2020

Expenditure Total: \$31,566,694

Enrollment as of Oct. 1st: 3,533

Enrollment PPE: \$8,934.81

Superintendent Total Compensation

EXPENDITURE DETAILS - ALL FUNDS

Function Code	Description	Amount	Enrollment
	Instruction	\$14,581,476.38	\$
	Support Services—Students	\$1,720,310.67	
	Support Services—Instructional Staff	\$801,966.64	
	Support Services—General Administration	\$341,901.59	
	Support Services—School Administration	\$1,997,389.55	
	Support Services – Central Services	\$1,133,186.25	
	Operation and Maintenance of Plant Services	\$8,832,484.44	\$
	Student Transportation Services	\$87,883.10	
	Child Nutrition Programs Operations	\$1,386,674.40	
	Enterprise Operations	\$80,568.83	
	Total:	\$30,963,841.85	\$

2620

Operation of Buildings Services

449

Oth Rentals/Lease Sv

\$4,822,586.13

# Merger – SFS Dev. is Santa Fe South

**Form 990** **Return of Organization Exempt From Income Tax** **2019**  
 OMB No 1545-0047  
 Department of the Treasury Internal Revenue Service  
 Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)  
 Do not enter social security numbers on this form as it may be made public.  
 Go to [www.irs.gov/Form990](http://www.irs.gov/Form990) for instructions and the latest information.

**A For the 2019 calendar year, or tax year beginning 01-01-2019, and ending 12-31-2019**

**B** Check if applicable:  
☐ Address change  
☐ Name change  
☐ Initial return  
☐ Final return/terminated  
☐ Amended return  
☐ Application pending

**C** Name of organization: **SFS DEVELOPMENT INC.**  
 Doing business as:  
 Number and street (or P.O. box if mail is not delivered to street address): **4825 SOUTH SHIELDS BLVD**  
 City or town, state or province, country, and ZIP or foreign postal code: **OKLAHOMA CITY, OK 73129**

**D** Employer identification number: **45-544536**  
**E** Telephone number:

**F** Name and address of principal officer:

**I** Tax-exempt status: ☒ 501(c)(3) ☐ 501(c) ( ) (insert no.) ☐ 4947(a)(1) or ☐ 52

(A) Name and title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)	(D) Highest compensated employee	(E) Form 990
(1) CHRISTOPHER BREWSTER PRESIDENT	2.00	X		
(2) BROOKS LEVONITIS VICE PRESIDENT	0.00	X		

Line	Amount	Amount	Amount
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)			
7 Other salaries and wages	421,138	421,138	
8 Pension plan accruals and contributions (include section 401 (k) and 403(b) employer contributions)	2,888		2,888
9 Other employee benefits	850		850
10 Payroll taxes			
11 Fees for services (non-employees)			
a Management			
b Legal			
c Accounting			
d Lobbying			
e Professional fundraising services. See Part IV, line 17			
f Investment management fees			
g Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O)			
12 Advertising and promotion			
13 Office expenses	7,697	7,697	
14 Information technology			
15 Royalties			
16 Occupancy	13,343	13,343	
17 Travel	3,287	3,287	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials			
19 Conferences, conventions, and meetings	7,413	7,413	
20 Interest	92,175	92,175	
21 Payments to affiliates			
22 Depreciation, depletion, and amortization	205,224	205,224	
23 Insurance			
24 Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O)			
a LICENSE AND OTHER FEES	26,553	392	26,161
b INDEPENDENT CONTRACTORS	52,000	52,000	
c CAPITAL EXPENDITURES	3,761,376	3,761,379	
d			
e All other expenses	9,388	9,388	
25 Total functional expenses. Add lines 1 through 24e	4,607,135	4,575,236	31,899
26 Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720)			

Form 990 (2019)

Same leaders on both sides of transactions

Pass-through entity: Santa Fe South acquired property - > SFS Dev. See 2012 lawsuit. Santa Fe South then quitclaimed title to SFS Dev.

More than 95% of SFS Dev. revenue comes from Santa Fe South.

Expended more than \$4.6 million, but no employees for SFS Dev. and no office space expense (SFS Dev. tax return)

Same addresses (SFS Dev. tax return)

\$421K management fee paid to SFS in 2019; \$4.8M total paid in 20-21

# Operations & Finances – Loan, Security and Line of Credit

- Approved SFS Development Corp., Inc., loan "pending approval by Walton Foundation and allowing board members 48 hours to review contracting language..." (Aug. 6, 2020)
- Approve loan Loan Agreement, Security Agreement, Line of Credit
  - Short-term loan: \$50,000
  - Multi-year loan: \$250,000
  - Commitment: loans to not exceed \$500,000 at one time; Maturity: January 31, 2024
  - Interest: 0% until January 1, 2022;
  - Conditions precedent & covenants: Lease on School Premises for rights of SFS if Default
  - Default has occurred
  - Collateral: "secured by a first and superior lien against all assets of Borrower"

# Operations & Finances (June 2020)

- 6.15.20 – “best that Sovereign Community School terminate its contract with the State Board of Education, effective June 30, 2020”
  - Site under Santa Fe South Schools
  - Rose State has accepted sponsorship of SFS Sovereign Community School
  - Negotiate with Rose State to serve as a sponsor; Rose State accepted Santa Fe South application to operate Sovereign
- 6.19.20 – “In order for SCS to remain viable, all financial obligations have to be dealt with.”
  - Contributions to TRS have not been made
  - State Board continuing sponsorship may be preferable
  - Santa Fe South Development Corp. financial assistance to SCS. A 0% interest loan and all rental payments go to maintenance, cost to acquire and upgrades on property
  - Reconstitute governing board
- 6.25.20 – State Board meeting
  - Authorize expansion to 5th grade (increase enrollment to 160 by Fall 2020);
  - SCS to obtain an independent financial audit, to be conducted immediately and reported on as soon as possible; and
  - Monthly financial reports to be provided to OSDE/OSBE

# Operations & Finances

Approve 2020-2021 budget with “ability to adjust” (July 9, 2020)

Temporary appropriation of \$200,000

Approve updated budget (July 16, 2020); Minutes reflect it as a “temporary budget”

- Omitted debt
- Increase administrative salaries; decrease teacher salaries despite adding instructional grade

# Operations & Finances

- \$12,000 Net Assets (Aug. 6, 2020)
- Bus driver approved to be a signatory on financial account, including debit card. (Aug. 6, 2020)
- End year with a \$ -21,336.52 carryover (Dec. 3, 2020)
- "do not have an absolute timeframe set for repayment (Dec. 3. 2020)
- \$11,976.81 Net Assets (Dec. 31, 2020).
  - \$102,500 PPP, \$300,000 SFS loan, TRS debt not included
- \$205,218.95 General Fund balance (Jan. 20, 2021)
  - Not accounting for loans and certain debt
- TRS paid in full. \$57,570.92 (Feb. 2021)
- PPP forgiveness (March 2021)
- State Aid: \$171,988.20 for remainder of year (March 2021)
- Does not account for SFS Dev Loan

# Operations & Finances - Audit

- Lack of segregation of duties. School: will correct when positions are hired.
- Contracts for administrative and support staff were not in place
- Purchase Orders were not being signed, did not have supporting documentation, invoices were not signed and dated prior to the purchase order date. **Pervasive.**
- Meeting minutes not signed as approved
- PPP loan repayment unless forgiven; need to contact lender and seek forgiveness.
- Meetings identified as "emergency meeting" and does not qualify as such
- Purchase orders approved not reflected in meetings
- Did not provide notice of meeting dates to Oklahoma County Clerk
- Agendas for meeting did not identify date, time and place of posting
- "New business" and "executive session" improperly used and identified

# Operations & Finances - Audit

"almost exclusively" used a debit card for purchases

Inadequate documentation on activity fund purchases

Travel, meals and lodging expenses did not have sufficient detail for reimbursement (date, location, mileage, per diem, overnight expense, etc.)

Bond coverage not obtained

Meal service to students not confirmed to follow guidelines and procedures

General fund and activity fund checks issued for "cash."



# Summary

Application not  
adhered to in core  
areas

Bad financial audit

Fail to adhere to  
contract and  
probationary terms

Delayed and  
inaccurate reporting

Non-compliance with  
Open Meetings

Finances are based on  
hopes (grants,  
increased enrollment)  
and lending

# Contract – Breach, Termination & Dissolution

- Breach: Fail to meet or violate provision of Applicable Law, Contract or Performance Framework and effectiveness of Program
- Termination:
  - Failure to meet requirements for student performance
  - Failure to meet fiscal management standards
  - Violations of law
  - Other good cause – material violation of the terms, conditions standards or procedures in Contract and/or Applicable Law
- Termination shall occur no sooner than the end of the current school year, unless a different data is reasonably necessary to protect health, safety or welfare
- The sponsor shall give at least ninety (90) days' written notice to the governing board prior to terminating the contract

# Contract – Termination & Dissolution

- Upon termination, School Board will conduct winding up of affairs
- Sponsor is not responsible for and will not assume any liability incurred by the School
- School and personnel will fully cooperate with winding up
- School to have adopted a policy specifying method for disposing of real and personal property
- Real or personal property purchased by the School with public funds is retained by Sponsor
  - Assets not purchased with state or local funds and owned by the School, after paying School's debts and obligations, to be donated to other schools